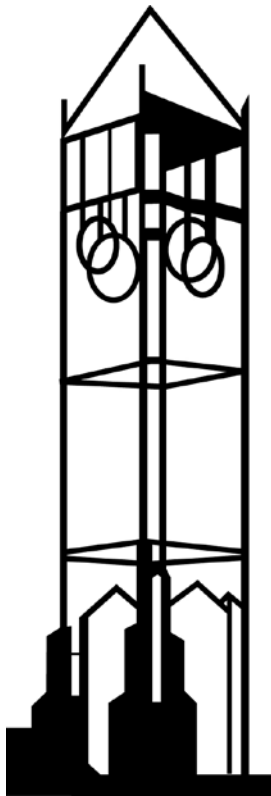


Comments to Usda on Rural Microentrepreneur Assistance Program

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Room 107-A Whitten Building
U. S. Department of Agriculture
12th and Jefferson Drive SW
Washington D.C.

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Mr. Chairman,

Thank you for providing this opportunity to provide comments and suggestions regarding the proposed rules for implementation of the Rural Microenterprise Assistance Program (RMAP).

I am the Director of the Community Vitality Center (CVC: www.cvcia.org) at Iowa State University, which has a board of 27 rural leaders representing universities, community and private colleges, economic development agencies, local development corporations, state Farm Bureau, rural utilities, philanthropic community foundations, and city and county government. ISU Extension serves as the fiscal agent and administrative host. The CVC mission since inception 7 years ago has been to serve as a catalyst in creating dialogue projects, new collaborations for solving rural problems, and innovative demonstrations to enhance rural vitality. CVC has provided seed funding matched by local sources to over 70 community-based entrepreneurship development projects. During the past five years, CVC assisted in organizing and training over 85 newly formed community foundations across the state. They now annually grant \$11 million (about \$130,000 per affiliate) to build local endowments and address needs in the local counties. They also leverage \$2 million in state incentives into about \$10 million of additional donations to permanent endowments. Finally, CVC has conducted over a dozen rural-urban policy studies, including an Iowa Wealth Transfer Study and more recently a study of "Recent Movers In 19 Nonmetro Iowa Counties." I will refer to findings from the latest study later in my remarks.

By far, the largest commitment that CVC has initiated to date is facilitation of a statewide microlending and technical assistance coordination entity. This initiative started 3 years ago when two ShoreBank Affiliates were invited to Iowa by the Leopold Center for

Sustainable Agriculture to present seminars on the role of their institutions in the rural regions of their respective states.

Interest grew. CVC and the Leopold Center formed a steering committee of 16 leaders from diverse lending and technical assistance networks across the state to study Iowa's entrepreneurial development system. The charge was to identify any gaps, study alternative models from Iowa and other states, and develop a plan that could be used to fill the gaps. A survey of Iowa Bankers Association members and interviews with numerous technical assistance providers indicated gaps in four areas: (1) entrepreneurial capital access for loan requests below \$50,000; (2) access to capital in some cases for unique ventures up to \$250,000; (3) local technical assistance for entrepreneurs was often uncoordinated in rural communities, and (4) some interest in local regional access to equity capital.

A business plan was developed, a statewide board of 19 directors was identified, a \$1 million investment from the Northwest Area Foundation and Greater Des Moines Community Foundation was secured for the initial 3-year startup period. On March 3, 2008, the Iowa Foundation for Microenterprise and Community Vitality (IFMCV: www.iowamicroloan.org) was organized as a nonprofit foundation. In July it received IRS 501(c)(3) tax exempt status. In October the first \$750,000 statewide "IowaMicroLoan" fund was created, under the SBA Microloan Program. In accordance with the business plan, I served as the founding President of the new entity during startup. My resignation was effective before the first loan approval, so I am here today as Director of a university center that seeks to provide research-based information and technical assistance. It should be noted that the 2008 Farm Bill was being discussed in Iowa during this time and leaders from both the CVC Board and IFMCV Board provided constructive comments in support of RMAP.

So with this introduction, three items are offered for constructive consideration as you write the Administrative Rules to implement RMAP.

1. The CVC and IFMCV Boards suggest that USDA may want to consider rule language that is broad and inclusive for the "microenterprise development organization" (MDO) definition. We conclude that with the appropriate wording of the RMAP rules, innovative statewide collaborations like IFMCV can be eligible under the language defining an MDO entity [Section 6022 [Page 122 STAT. 1935] 379E (a) (3) (D)] "has a demonstrated record of delivering services to rural microentrepreneurs, or an effective plan to develop a program to deliver services to rural microentrepreneurs, as determined by the Secretary." IFMCV has a statewide plan to develop a program for delivering microloans and services to rural microentrepreneurs coupled with a combination of personnel, board representation, consultants, and collaborations that bring strong track records in microenterprise and microlending activities from other entities."

Explanation: The vision behind the IFMCV concept is to invite all entities and networks in the state with microenterprise expertise and microlending resources to collaborate under the IFMCV umbrella in solving the microenterprise challenges, gaps, and

opportunities statewide. This concept is allowed under the SBA MicroLoan Program (Code of Federal Regulations Title 13 Business Credit Assistance, Chapter 1 Small Business Administration, Section 119.2 and Sections 199.3) where the MDO definition includes “a group or collaboration thereof.” It was under this basis of this collaboration and the track record of a collaborating entity that IFMCV received approval for the SBA Microloan Program during this past year.

The IowaMicroloan entity is the result of 3 years of work and collaboration among entities with a combined portfolio representing significant microenterprise assistance expertise, microlending track record, and a \$1.75 million investment to commence operations. The entity was facilitated and formed under the leadership from a land grant university, which has a significant technical assistance expertise network across the state, but no microloan program. The new collaboration entity is a nonprofit foundation with no microlending track record. However, the IFMCV Board Chair also serves as the Executive Director for Siouxland Economic Development Corporation (SEDC) and has managed Iowa’s only SBA Microloan Fund for the past 15 years. However, SEDC only serves 6 counties around Sioux City. The IFMCV business plan calls for utilizing the expertise and microloan track record of SEDC and all microlending and microenterprise technical assistance provider networks that wish to collaborate. The goal is to multiply access and benefits of the SBA program to the other 93 counties in Iowa that have no access to the SBA microloan funds and related technical assistance incentives. The SBA District Director has expressed interest in this concept as a potential case study model for other states that are interested in creating strategies for efficient back office operations, uniform underwriting standards, and critical mass for funds procurement; while creating local networks for enhancing statewide access to capital, providing technical assistance, and organization of entrepreneurial mentoring networks to fill the gaps.

The IFMCV concept was created by those who were looking for solutions in rural Iowa and the entity is located in rural Iowa. However, the coalition was made more robust and effective with the development of rural-metro collaboration. A wide range of rural entrepreneurial interests and lending networks were joined by a wide range of metro microenterprise networks to share lessons learned and to build a more solid foundation for the whole state. It would be unfortunate if new innovative institutions like IFMCV and other similar efforts across the nation are made ineligible for RMAP due to inadvertent exclusion in the MDO eligibility criteria even though they possess high quality plans to identify and fill the gaps and have access to talented individuals who collectively represent a strong track record of assistance for microlending and microenterprise training and technical assistance.

2. Section 6022(b)(4)(A)(ii)(I) This paragraph outlines the qualifications for grants to microenterprise development organizations to support rural microenterprise development. In this subparagraph, USDA is to place an emphasis in making these grants to *“microenterprise development organizations that serve microentrepreneurs that are located in rural areas that have suffered significant outward migration, as determined by the secretary.”* Others have suggested that outmigration be defined as a net outmigration of 10 percent or more over a 20-year period. This approach tends to serve the areas of

the most rural hinterlands with chronic outmigration, which includes about one-fifth of Iowa's 99 counties. A broader measure of 10% population loss over the same period would include about 45 Iowa counties because it additionally includes the natural population decline. However, both approaches tend to ignore some of the more dynamic reasons for population outmigration and opportunities for prevention of population outmigration that occur in an unpredictable fashion.

CVC's Survey of Recent Movers in 19 Iowa Nonmetro Counties underscored the importance of work-related income and employment factors in decisions to move both into and out of rural counties: (www.cvcia.org). Over the past seven years CVC has also found that community-based entrepreneurial development programs are more likely to take root when periods of greater entrepreneurial opportunity and interest present themselves. In many communities, this occurs when two conditions are met. First, a group of sparkplug leaders are present to articulate the importance of entrepreneurship to the community's future and generate access to funding resources for creating and sustaining entrepreneurial development systems. Second, there is an elevated sense of urgency among the public citizenry for entrepreneurial activity that has been created by one or more dramatic events or trends, such as (a) loss or gain of a major employer, (b) a flood or a tornado disaster, and (c) population churn characteristics such as the influx of diverse new cultures or the exodus of youth in the "brain drain."

Based on CVC experience, limiting or targeting microloan resources to counties with chronic net outmigration may miss the bulk of opportunities for entrepreneurship in the broader range of underserved rural communities. In fact, the concept of underserved might be elevated to a more dynamic concept. A stable state community that is fully employed may not be underserved by the lack of major investments in a community-based entrepreneurial development system. However, if the same community loses a major employer or experiences a devastating flood or tornado, all of the sudden the community leaders and citizens conclude that the local entrepreneurial class is dramatically underserved and something should be done about it to mitigate the potential losses in the community's economic base.

During 2008, Presidential Disaster Declarations were received by 85 of Iowa's 99 counties. IFMCV is assisting local leaders in several disaster-affected communities that are interested in creating cost-effective microentrepreneur development systems. Louisa County is one of the counties considering affiliation with IFMCV. Columbus Junction sits at convergence of the Iowa and Cedar Rivers and is the largest city in the county. It has 1900 people and the county's largest employer, a Tyson plant. Louisa is among the counties with the highest levels of diversity per capita in the state. At the other end of the county is Oakville next to the Mississippi River, which had 439 people in the 2000 Census. Oakville made national media when a levy broke and flooded the whole town. As typical for disaster-affected communities, these communities have lost some businesses that won't reopen and the families of the employees left in the lurch have a decision regarding whether they are going to stay put or move. About 10 percent of the population are prone to be engaged in entrepreneurial activities, so some of the displaced workers and other will attempt to use the opportunity to pursue their American dream and

start a own business. Unfortunately, the SBA Disaster Loans and SBA Economic Loss Loans do not cover these post-disaster startup businesses that would help to mitigate the potential for longer-term erosion in the local economic base. It would be unfortunate if RMAP missed the opportunities to prevent outmigration by limiting the targeting criteria to chronic demographic attributes without including some flexibility to target resources toward the consequences of the more acute events contributing to rural outmigration.

3. Section 6022(b)(4)(A)(i) A goal of the RMAP is to develop and sustain a rural network of microenterprise development organizations (MDOs) that can provide capital and technical assistance to very small rural businesses that currently lack access to capital and technical assistance support. There are significant areas in rural America that are currently unserved or underserved by MDOs. USDA may want to consider reserving a portion of the RMAP funds for grants to MDA collaborations that are specifically designing strategies for filling the gaps. For example until 2009, 93 of Iowa's counties were potentially unserved or underserved by the SBA Microloan Program. Furthermore, while there is a broad network of non-profit rural lending intermediaries, not all of these organizations are willing or able to serve microenterprise. Recent informal surveys by Iowa rural utilities statewide economic development group concluded that only a handful of rural nonprofit intermediaries serve microbusinesses and most of these would not have organized in-house capacity to provide technical assistance targeting microbusinesses.

Given that RMAP provides USDA with broad authority to make grants to MDOs that would further the purpose of the RMAP program, it is suggested that USDA consider using this authority to grant funds (per the emphasis for such grants in Section 6022(b)(4)(A)(ii)(I)) to MDOs and MDO collaborations that have strategies designed to identify gaps and for efficiently addressing the gaps for each state or sub-state area served. It is important to recognize that gaps in opportunity may appear by community, by institution, by region, by sector, by income level, by culture, or by other criteria. Thus a wide range of strategies are potentially deployed, depending on the gaps identified.

Having a few target industry foci is one strategy that may be appropriate. It makes economic sense to develop technical assistance expertise networks around segments of a growing industry. At the same time, microlending pools are typically going to be more successful if risks are spread across industries and projects in a more diversified multi-purpose microloan portfolio. So dual strategies for serving multiple industry segments and providing access to basic as well as industry-specific technical expertise may be appropriate. An example might be the development of specific loan and technical assistance initiative for financing multiple businesses interested in owning ethanol blender pumps while also working with other networks to develop specific loan and technical assistance initiatives for supporting local food producer supply chain networks.

A second gap strategy for regional or statewide organizations is to develop affiliate networks and co-financing products that help to avoid the inactive use of loan balances that may exist in a system of small local funds that are dispersed across a region. For example, a dispersed system may find a loan fund surplus in one county due to lack of

entrepreneurial projects, when there may be entrepreneurial deals wanting in the county next door that has a shortage of funds. Through the affiliation strategy, IFMCV microloan fund allocations that are not used by one affiliate can be reduced and redeployed to other areas where the microloan demand is greater.

IFMCV's is also examining strategies for stimulating collaboration with the broader network of non-profit rural lending intermediaries that have traditionally avoided microlending due in part to cost of serving microloans and lack of technical assistance capability, which is particularly important for microentrepreneur success. The SBA Microloan Program allows a \$1 for \$2 co-financing strategy with local lenders and potentially for local revolving loan funds. In recent years, many new businesses have been started on credit cards, so SBA has also approved IFMCV for credit card refinancing. The addition of a partial loan guarantee mechanism for microloans may also be appropriate for strategic infant industries such as renewable energy that are in the interest of national security and greater energy independence.

RMAP is not and should not be a give-away program. It should not become over-regulated. It should provide a helping hand program.

IFMCV's collaboration philosophy does not compete with commercial banks, but seeks to complement their services and gain their support and capacity in addressing the microenterprise gaps. Similar to the Northern Initiatives model in Upper Michigan, IFMCV hopes to receive a significant number of potential loan clients from banker referrals. IFMCV interest rates are higher than bank rates and priced more closely with risk adjusted market rates. Rather than undercutting bank lending, IFMCV's goal is to graduate microloan clients back to commercial lenders within 6 years. Our costs are higher because we are serving smaller loans and a larger volume of loan clients per dollar of loaned funds. The risks presented by our loan clients are higher. IFMCV requires a lender denial letter for each client. Our costs are higher because we are providing individualized and specialized technical assistance that is not always fully covered by technical assistance grants. Since the economic operating conditions facing microloan intermediaries are more severe than those faced by commercial lenders or other loan funds, we are interested in as much interest rate pricing flexibility as possible to preserve sustainability for the nonprofit and to have capacity in developing innovative solutions for addressing the gaps in serving microentrepreneurs across our area of service.

Community foundations represent another network that is potentially important for sustaining RMAP programs, yet this network of institutions is typically not well organized to do so. They are typically more comfortable in addressing more traditional charitable human needs rather than critical investments for sustaining community vitality that would address the economic base issues longer term. One of IFMCV's goals is to work with community foundations so they are empowered to reach their potential. Development of county microenterprise endowments could become an important tool for sustaining RMAP programs locally. The 2008 Farm Bill includes and increasing reference to community foundations and the role that rural philanthropy could play, and begins to include some tools in this area. Even though we have over a hundred

new community foundations in Iowa over the past five years, we have only begun to scratch the surface of the potential for tapping the \$5 billion transfer of wealth that occurs annually in the state. This translates to an average of \$50 million per county annually.

A broad interest collaboration might include representatives that span rural Main Street microbusinesses; microentrepreneurs in rural business parks and industrial parks; home-based businesses; rural internet business; microventures in green energy; women, minorities, and entrepreneurs with disabilities; value-added agriculture, as well as new local food producers, lenders, foundations, and others. At a time of national crisis, it is important to move from coexistence and tolerance to collaboration. At a time when we are all being asked to give more and accept less, the CVC and IFMCV Boards embody the concept of diverse rural people, interests, and institutions coming together and collaborating to accomplish something greater than could be accomplished by action of individuals, institutions, or regions that view themselves in competition with one another. This is the kind of regional collaboration envisioned in the 2008 Farm Bill.

In the final analysis, there has been overwhelming interest and excitement surrounding the creation of RMAP at USDA since Congress started working on the Food, Conservation, and Energy Act of 2008. We have appreciated the work of the Center for Rural Affairs for providing some of the national leadership needed for keeping this part of the American Dream alive on the national agenda. In contrast to five years ago, Iowa now has a flexible statewide organizational structure to provide statewide access to capital for serving a broad spectrum of entrepreneurs. Entrepreneurship is the foundation of the American Dream for many of our citizens. We look forward to working with USDA in the implementation of this program. It is a program that can provide hope for many rural Americans.

Thank you for this opportunity to share our perspectives and analyses.